

Message Text

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ACTION NEA-12

INFO OCT-01 ADP-00 RSR-01 AID-20 CIAE-00 COME-00 EB-11

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CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10 SS-15 STR-08

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R 121115 Z APR 73

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 3748

INFO AMEMBASSY COLOMBO

AMEMBASSY DACCA

AMEMBASSY ISLAMABAD

AMEMBASSY KATHMANDU

AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

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E. O. 11652: N/ A

TAGS: EFIN IN

SUBJECT: FINANCE MINISTER CHAVAN' S PARLIAMENTARY STATEMENT ON
INTERNATIONAL MONETARY REFORM

BEGIN SUMMARY. THIS MESSAGE TRANSMITS THE SUBSTANTIVE PORTIONS
OF THE PARLIAMENTARY STATEMENT ON INTERNATIONAL MONETARY REFORM
MADE BY FINANCE MINISTER CHAVAN ON APRIL 6, 1973 FOLLOWING HIS
RETURN FROM THE WASHINGTON MEETING OF THE COMMITTEE OF 20.
THE STATEMENT INDICATES THAT INDIA IS GENERALLY PLEASED WITH THE
RESULTS OF THE MARCH 26-27 MEETING. END SUMMARY.

1. ON APRIL 6, 1973 FINANCE MINISTER CHAVAN MADE A STATEMENT ON
INTERNATIONAL MONETARY REFORM BEFORE THE LOK SABHA. THE STATEMENT
INDICATES THAT INDIA WAS GENERALLY PLEASED WITH THE OUTCOME
OF THE MARCH 26-27 MEETING OF THE COMMITTEE OF 20. CHAVAN
COMMENTED FAVORABLY ON THE C-20 COMMUNIQUE' S REFERENCES TO
STABLE
EXCHANGE RATES, THE ROLE OF SDRS IN THE NEW SYSTEM AND
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CONTROLS OVER DISEQUILIBRATING CAPITAL FLOWS. THE MAJOR NEGATIVE NOTE IS THE FAILURE OF THE DEVELOPED COUNTRIES TO COMMIT THEMSELVES FORMALLY TO THE IDEA OF AN SDR- AID LINK. CHAVAN WARNED THAT THE LDCS MUST SPEAK WITH ONE VOICE IF THEY ARE TO BE HEARD IN THE C-20.

2. THE GOI PRESS HANDOUT WHICH ACCOMPANIED RELEASE OF THE STATEMENT EMPHASIZED THE FOLLOWING TWO POINTS IN CHAVAN'S STATEMENT.

THIS MAY BE INDICATIVE OF THEIR RELATIVE IMPORTANCE IN INDIAN THINKING ON THIS MATTER.

A. EVEN THOUGH THE PAR VALUE SYSTEM IS LIKELY TO BE RETAINED, THERE IS A STRONG SENTIMENT IN FAVOR OF GREATER EXCHANGE RATE FLEXIBILITY THAN IN THE PAST. THE LDCS WILL THEREFORE HAVE TO LEARN TO LIVE WITH THE CONSEQUENCES OF MORE FREQUENT EXCHANGE RATE CHANGES.

B. INDIA ATTACHES GREAT IMPORTANCE TO THE WORK OF THE GROUP OF 24 AS A FORUM FOR DEVELOPING UNIFIED LDC POSITIONS ON ISSUES. ONLY WHEN THE LDCS ARE UNITED IS THEIR VOICE LIKELY TO BE HEARD IN THE COMMITTEE OF 20.

3. THE FIRST HALF OF CHAVAN'S STATEMENT WAS A BROAD BRUSH REVIEW OF THE FACTORS LEADING UP TO THE CURRENT STATE OF INTERNATIONAL MONETARY AFFAIRS AND A DISCUSSION OF THE PROGRESS TO DATE OF THE COMMITTEE OF 20. THE LATTER HALF OF THE STATEMENT DEALING WITH INDIAN VIEWS ON SUBSTANTIVE MATTERS UNDER CONSIDERATION IN THE C-20 FOLLOWS.

4." BEFORE THE MAJOR CONCLUSIONS OF THE MEETING OF THE COMMITTEE OF 20 ARE DESCRIBED, THE HOUSE MAY LIKE TO KNOW THE SET OF OBJECTIVES WE HAD IN MIND FOR THIS MEETING. FIRST OF ALL, WE WERE VERY KEEN THAT THE INTERNATIONAL MONETARY FUND RATHER THAN THE GROUP OF 10 OR THE NEW GROUP OF 14 SHOULD BE THE PRIMARY FORUM FOR DISCUSSION OF INTERNATIONAL MONETARY ISSUES. SECONDLY, LIKE OTHER DEVELOPING COUNTRIES WE STRONGLY FEEL THAT A STABLE THOUGH ADJUSTABLE PAR VALUE SYSTEM PROVIDES A FRAMEWORK WHICH IS MOST CONDUCTIVE TO THE EXPANSION OF WORLD TRADE. DEVELOPING COUNTRIES DO NOT HAVE THE INSTITUTIONAL ARRANGEMENTS TO COPE WITH PROLONGED UNCERTAINTIES IN THE EXCHANGE MARKETS. THIRDLY, WE WERE EAGER THAT THE SPECIAL DRAWING TS RA THAM GOLD OR NATIONAL CURRENCIES SHOULD

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BECOME THE PRINCIPAL RESERVE ASSET IN THE REFORMED MONETARY SYSTEM.

FOURTHLY, WE ARE IN FAVOR OF CONTROL OF SPECULATIVE CAPITAL MOVEMENTS SO AS TO ENSURE THAT EXCHANGE RATES ARE NOT ALWAYS AT THE MERCY OF SPECULATORS. FIFTH, DURING THE LAST FEW YEARS, WE HAVE ARGUED CONSISTENTLY IN FAVOR OF USING NEW INTERNATIONAL LIQUIDITY TO PROVIDE ADDITIONAL RESOURCES FOR ECONOMIC DEVELOPMENT OF DEVELOPING COUNTRIES. IT IS OUR VIEW THAT WHILE THE VOLUME OF NEW INTERNATIONAL LIQUIDITY SHOULD BE DETERMINED SOLELY ON THE BASIS OF MONETARY NEEDS OF THE WORLD ECONOMY, IT IS BOTH FEASIBLE AND DESIRABLE TO USE THE LIQUIDITY SO CREATED TO PROVIDE ADDITIONAL REAL RESOURCES TO DEVELOPING COUNTRIES. THIS PROPOSAL KNOWN AS THE LINK PROPOSAL HAS GAINED WIDESPRED INTELLECTUAL ACCEPTANCE IN RECENT YEARS, EVEN THOUGH THERE IS STILL RESISTANCE TO IT FROM GOVERNMENTS OF A NUMBER OF DEVELOPED COUNTRIES. MOYNIHAN

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5. " THE RESULTS OF THE DELIBERATIONS OF THE COMMITTEE ARE REFLECTED

IN THE COMMUNIQUE ISSUED AT THE END OF THE MEETING. A COPY OF THIS COMMUNIQUE IS ALSO LAID ON THE TABLE OF THE HOUSE. CLEARLY WE HAVE STILL TO RESOLVE A LARGE NUMBER OF UNSETTLED ISSUES BEFORE AN AGREEMENT CAN BE REACHED ON THE OUTLINE OF REFORM. NEVERTHELESS THIS MEETING HAS HELPED TO PROVIDE THE NEEDED IMPETUS TO THE WORK OF DEPUTIES.

6. " IT IS A MATTER OF SATISFACTION TO US THAT THE COMMITTEE HAS AFFIRMED THAT THE EXCHANGE RATE REGIME IN THE REFORMED SYSTEM SHOULD CONTINUE TO BE BASED ON STABLE BUT ADJUSTABLE PAR VALUES. HOWEVER THERE IS A STRONG SENTIMENT IN FAVOR OF GREATER EXCHANGE RATE FLEXIBILITY THAN IN THE PAST AND EVEN THOUGH THE PAR VALUE SYSTEM IS LIKELY TO BE RETAINED DEVELOPING COUNTRIES WILL HAVE TO LEARN TO LIVE WITH THE CONSEQUENCES OF MORE FREQUENT CHANGES IN EXCHANGE RATES IN THE FUTURE. 7." THE COMMITTEE OF 20 HAS ALSO AGREED THAT THE ROLE OF RESERVE CURRENCIES SHOULD BE REDUCED AND THE SPECIAL DRAWING RIGHTS UNCLASSIFIED

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SHOULD BECOME THE PRINCIPAL RESERVE ASSET OF THE REFORMED SYSTEM. THIS IS IN LINE WITH OUR OWN THINKING ON THIS SUBJECT.

8. " THE COMMITTEE HAS ALSO AGREED THAT AN INTENSIVE STUDY SHOULD BE MADE OF EFFECTIVE MEANS TO DEAL WITH THE PROBLEM OF DISEQUILIBRATING CAPITAL FLOWS.

9. " FINALLY, ON THE IMPORTANT SUBJECT OF THE LINK, WE HAVE NOT BEEN ABLE TO PERSUADE THE COMMITTEE TO ENDORSE IT IN PRINCIPLE AND TO LEAVE ITS MECHANICS TO BE WORKED OUT LATER ON. SOME DEVELOPED COUNTRIES HAVE STRONG RESERVATIONS IN THIS MATTER. HOWEVER, THE COMMITTEE HAS AFFIRMED THE DESIRABILITY ON THE OCCASION OF REFORM TO PROMOTE ECONOMIC DEVELOPMENT AND THE FLOW OF REAL RESOURCES FROM DEVELOPED TO DEVELOPING COUNTRIES. ALTHOUGH THIS CANNOT BE CONSTITUTED AN ENDORSEMENT OF THE LINK, THE LANGUAGE OF THE COMMUNIQUE REFLECTING (SIC) SOME POSITIVE ADVANCE.

10. " IN OUR VIEW, THE LINK IS A PRACTICAL MEANS OF SECURING THE OBJECTIVE ENDORSED BY THE COMMITTEE. IT WOULD BE WRONG TO SUGGEST THAT THE LINK PROPOSAL WILL NOT FACE ANY SERIOUS HURDLES. HOWEVER IF DEVELOPING COUNTRIES REMAIN UNITED, THERE IS A GOOD CHANCE THAT THE LINK WOULD CONSTITUTE AN IMPORTANT ELEMENT OF THE REFORMED SYSTEM.

11. " PRIOR TO THE MEETING OF THE COMMITTEE OF 20, THE MINISTERIAL MEETING OF THE GROUP OF 24 DEVELOPING COUNTRIES WAS HELD ON 24 TH MARCH, 1973. THIS GROUP CAME INTO BEING LAST YEAR TO

ENABLE DEVELOPING COUNTRIES TO EXCHANGE VIEWS AND TO WORK OUT A
COMMON POSITION ON MATTERS RELATING TO INTERNATIONAL MONETARY
REFORM. ON OUR SUGGESTION, THE GROUP OF 24 HAS SET UP A WORKING
PARTY TO WORK OUT A COMMON POSITION ON THE LINK PROPOSAL
ACCEPTABLE
TO ALL DEVELOPING COUNTRIES FOR PRESENTING IT TO THE COMMITTEE OF
20. WE ATTACH GREAT IMPORTANCE TO THE WORK OF THE GROUP OF 24
FOR IT IS ONLY IF DEVELOPING COUNTRIES ARE UNITED THAT
THEIR VOICE IS LIKELY TO BE FELT IN THE FORUMS OF THE COMMITTEE OF
20. ON OUR PART, WE SHALL MAKE EVERY POSSIBLE EFFORT TO SUSTAIN
THE UNITY OF DEVELOPING COUNTRIES IN OUR COMMON QUEST FOR A NEW
MONETARY SYSTEM WHICH
WILL BE MORE RESPONSIVE TO THE NEEDS OF DEVELOPING COUNTRIES."
MOYNIHAN

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